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Enterprise Growth Initiatives: Findings of a New USAID-Funded Report by Snodgrass & Winkler

BACKGROUND

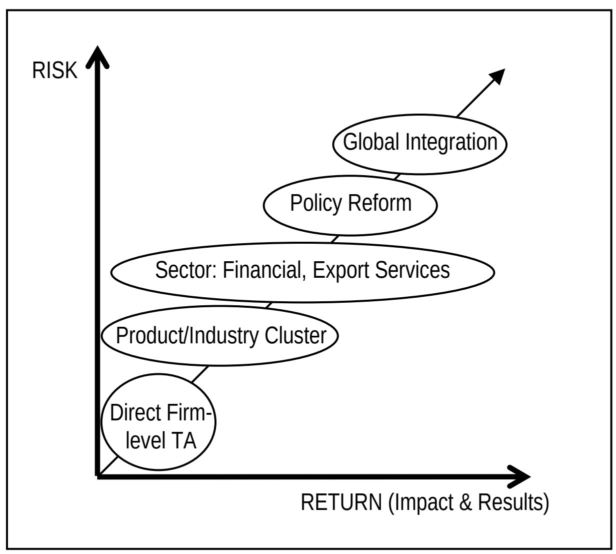
A key principle to which donors, and increasingly recipients as well, are committed is that of the link connecting economic growth in general to sustainable growth of private enterprise. Sustainable growth of private enterprise is a requirement for increasing per capita income, raising employment levels, and reducing poverty. In a growing economy, increased sustainability of enterprises is typically associated with movement from agriculture to industry and services, from rural to urban areas, from smaller to larger firms, and from a widespread informal sector to increased compliance with reformed laws and regulations. In the increasingly globalized marketplace, the sustainability of private enterprises depends critically on quality factor inputs, low transaction costs, innovation, and technology.

KEY FACTORS FOR SUSTAINABLE PRIVATE ENTERPRISE GROWTH

In broad terms, three key factors influence the sustainability of private enterprises: demand; business environment (country policy and institutions); and competitive response capability. All three factors form the basis for different enterprise growth initiatives. But the last two are particularly salient in donor practice. Thus, in many cases, a donor's private enterprise growth initiative will concentrate primarily on policy reforms and institutional building that improve the quality of the business environment and the incentive structure, so that a competitive economy will emerge. In many other cases, the initiative concentrates on strengthening the ability of private sector firms to seek out and respond to any existing or emerging market opportunities. Particular features of each country should drive the programmatic choices, relying upon highly qualified staff with extensive knowledge of local conditions.

In any country, the success of an individual firm depends heavily upon the performance of the firms with which it interacts. The size of these firms that are "networked" together can range from small to large, but the success of firms owes more to the dynamism of management than it does to the firm's size. There are important implications from these findings. First, enterprise projects should not work with one size of firm alone - micro, SME or any other. Donors and partners need to think increasingly in terms of networks or clusters of firms of different sizes. Enterprise projects should select firms to work with based upon the dynamism of management – including willingness to take risk – rather than on firm size.

Sustainable private enterprise growth is influenced by multiple levels of the economic context: the firm itself, product or industry clusters, sectors, economy-wide policies, and global. Snodgrass and Winkler designed a graph (see graph on this page, adapted and abbreviated from their original graph) to illustrate the trade-off between risk and return for each of these levels of taking action to enhance sustainable private enterprise growth. The choice of working at the policy level, or lower on the scale with firms or clusters does not have to be a polar choice. In many environments, working with firms or clusters may be the most effective way to approach identifying and resolving policy constraints. However, what Snodgrass and Winkler stress, given the high return from policy change, is that donors should not work at the firm or cluster level unless they are also somehow addressing the policy problems too.



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KEY PRINCIPLES FOR ENTERPRISE INITIATIVES

Sound management of enterprise growth initiatives is built on a foundation of market analysis, understanding market dynamics, and a country typology of developmental phases. Among the guiding principles for enterprise initiatives are: awareness that incentives drive the behavior of entrepreneurs, enterprises create growth, markets create winners and losers, and economic informality transcends micro-enterprises.

Donors need to overcome bureaucratic constraints on their management of enterprise interventions. Initiatives should not be micromanaged and picking winners should be done by private parties.

The strategic value of enterprise initiatives is strengthened when they improve firms' access to markets, financial capital, and business services.

Enterprise growth initiatives should rely on the dynamism and willingness of management to take risks, rather than the firm size, in selecting which firms to engage or provide services.

With respect to the broader question of at what level to take action – global integration, policy, sector, cluster, or individual firm – the choice for donors and partners is not necessarily limited to one level. Working at a higher scale poses greater rewards and entails higher risks and costs. In some cases, delivering services to the individual firm or cluster level is optimal, but it should not be undertaken with at least some measure of engagement for policy reforms.

REFERENCE

USAID has just received the next-to-final draft of the comprehensive report, ***Enterprise Growth Initiatives: Strategic Directions and Options*** (February 2004) authored by Donald R. Snodgrass and James Packard Winkler of DAI, on which this technical briefing has drawn. The report has been posted on the EG web pages. Readers can access it through the following link: [INSERT LINK]